

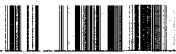
would experience real growth of about 20 percent in 1987. These funds would be used to improve integration of strategic communications and to improve overall communications reliability.

The remaining activities funded in the O&M account serve centralized support functions. Central supply and maintenance activities include major overhauls of weapons which would receive much of the real growth in this

TABLE III-6. REAL GROWTH IN OPERATION AND MAINTENANCE
(By fiscal year, in billions of dollars and percents)

Activity	1987 Request (Dollars)	Real Growth			
		1980-85 Average (Percent)	1985-86 (Percent)	1986-1987	
				Percent	Dollars
Strategic Forces	6.1	3	-9	19	1.0
General Purposes					
Forces	26.3	8	-5	9	2.2
Intelligence and					
Communications	8.7	12	-1	20	1.4
Airlift and Sealift	1.8	13	-7	-1	0.0
Reserve Forces	6.5	6	-3	12	0.7
Central Supply and					
Maintenance	20.0	3	-9	9	1.6
Training, Medical					
and other	12.7	8	-5	15	1.6
Administration					
and Associated	3.4	9	-9	14	0.4
Support of					
other Nations	<u>0.2</u>	<u>10</u>	<u>-13</u>	<u>45</u>	<u>0.1</u>
Total	85.8	6	-6	12	9.0

SOURCE: Compiled by Congressional Budget Office, based on data supplied by the Department of Defense.



category. Two additional overhauls of strategic submarines are planned as well as reductions in maintenance backlogs. Centralized training, medical care, and administration funding would increase by about 14 percent for combined real growth of about \$2 billion. O&M provides most of the funding for civilian employees of the Defense Department. The budget allows for a 3.0 percent civilian pay raise effective January 1, 1987, compared with the CBO baseline assumption of 3.3 percent effective October 1, 1986. Also, the Administration's allowance covers the full cost of the pay raise in defense compared with 50 percent in the request for nondefense agencies.

Procurement

The procurement account funds the purchase of weapons and other equipment. The weapons purchased in this account include new ships, aircraft, missiles, and combat vehicles like tanks. The procurement account also funds major modification or weapons improvement programs as well as spare and repair parts. Other purchases include trucks, bridging equipment, radios, and satellites. As shown in Table III-7, the procurement account is the only major funding category for which the 1987 budget request contains a real decline in budget authority--about 1 percent. In 1986 it experienced real decline of about 2 percent after growing at a 15 percent average annual rate in the preceding five years.

Support Equipment. The largest single activity within the procurement account for 1987 is support and other procurement. Its large absolute and relative size stems from the fact that "other" equipment is itself a large category and that all major weapons systems require general and sometimes specialized equipment for maintenance and test purposes. While not a part of actual weapon systems, these items are important parts of all weapons programs. In real terms, this category was unchanged in 1986 and would grow about 16 percent in 1987--the same average annual rate sustained in 1980-1985 period.

Aircraft. The next largest single category, aircraft procurement, would see real decline for the second consecutive year--a drop of about 22 percent in 1987 following a decline of about 9 percent in 1986. Aircraft procurement grew at an average annual rate of about 18 percent from 1980 through 1985. In terms of the numbers of aircraft, the Administration's budget calls for buying 870 aircraft in 1987 compared with about 889 in 1986--a decline of only 2 percent.

TABLE III-7. REAL GROWTH IN PROCUREMENT BUDGET AUTHORITY
(By fiscal year, in billions of dollars and percents)

Activity	1987 Request (Dollars)	Real Growth <u>a/</u>			
		1980-85 Average (Percent)	1985-1986 (Percent)	1986-1987	
				Percent	Dollars
Support and Other Equipment	22.4	16	-0	16	3.1
Aircraft	17.5	18	-9	-22	-5.0
Shipbuilding and Conversion	11.1	6	-8	4	0.4
Other Missiles, Torpedoes, and Weapons	9.9	18	7	6	0.6
Communications and Electronic Equipment	9.2	13	15	20	1.5
Spares and Repair Parts <u>b/</u>	7.0	24	-19	-1	-0.1
Vehicles, All Types <u>c/</u>	5.9	20	7	-24	-1.9
Modifications	5.5	9	-6	-7	-0.4
Ammunition, Munitions and Related Equipment	4.4	16	-6	6	0.3
Ballistic Missiles <u>d/</u>	2.9	-2	91	27	0.6
Total	95.9	15	-2	-1	-0.9

SOURCE: Compiled by Congressional Budget Office from data supplied by the Department of Defense.

- Real growth computed using CBO's economic assumptions and the President's pay-raise assumptions.
- Spares and repair parts for Navy weapon procurement, Navy "other" procurement, and Marine Corps procurement were not broken out in the DoD justification materials until 1986.
- Includes Army weapons and tracked combat vehicles and purchases of National Guard and Reserve equipment, but excludes all Navy vehicles which are included in Support and Other Equipment.
- Fiscal year 1985 does not include \$1.5 billion of prior-year funds for the purchase of 21 MX missiles; if these funds were included in the analysis, the five-year average for ballistic missiles would be 16.1 percent and the growth between 1985 and 1986 would be -18.0 percent.

The budget shows a greater decline in costs than in aircraft procured for reasons that are not entirely clear at this time. The largest declines for individual aircraft occur for miscellaneous Army helicopters and Navy aircraft, the Air Force's KC-10 aerial refueling tankers, and the B-1 bomber (48 in 1986 to zero in 1987). The Air Force would also buy a cheaper mix of aircraft in that 120 of the 216 requested F-16s would be a stripped down variant. Another contributing factor to the relatively greater decline in costs might be lower unit costs through repricing and other factors.

Shipbuilding. The Administration's request of \$11 billion for shipbuilding and conversion represents 4 percent real growth, slightly below the 6 percent average annual rate for the 1980-1985 period. Despite the funding increase, three fewer ships would be purchased in 1987 than in 1986 (24 versus 27). This would occur because the 1987 request contains a more expensive mix of ships--the additional cost of one more major warship and auxiliary ship more than offsets the savings from buying three fewer amphibious ships and two fewer mine warfare and patrol ships.

Missiles. Funding for nonballistic missiles, torpedoes, and other weapons would continue to increase in real terms with growth of about 6 percent in 1987, compared with 7 percent in 1986 and a 18 percent annual average for 1980 through 1985. The many weapons funded in this area are not easily summarized, but examining the Administration's plan for tactical missile procurement reveals that the number purchased in 1987 would be about 4 percent lower than that for 1986. The program mix can influence the result, but certain missile programs show large increases in unit costs. For example, the rolling airframe missile has a unit cost four times greater than projected in the Administration's budget of a year ago. Similarly, compared with the Administration's 1986 projections, the advanced medium-range, air-to-air missile, AMRAAM, has unit costs 86 percent higher; the Chaparral missile is 75 percent more expensive; the Sidarm missile is 41 percent higher; a Phoenix missile costs 33 percent more; and the Harpoon is 21 percent more costly.


Communications Equipment. The Administration's budget proposes to purchase about \$9 billion worth of communications and electronic equipment, ranging from radios for tactical forces to satellites for strategic communications. The request contains real growth of about 20 percent in 1987, which is an increase from the 15 percent rate in 1986 and the 13 percent annual average for the 1980-1985 period.

Vehicles. Funding for procurement of vehicles--primarily for the Army and Marine Corps--would decline in real terms by about 24 percent in 1987. In contrast, this budget activity averaged 20 percent annual real growth from 1980 through 1985 and 7 percent in 1986. This category buys all kinds of vehicles from trucks and other wheeled support vehicles to tanks and other tracked combat vehicles. Like the nonballistic missile category, the items funded in this category are not easily summarized. Focusing on major combat vehicles, the number of vehicles procured would fall from about 2,519 in 1986 to about 2,151 in 1987. The budget request would buy 21 percent, or 154 more, Bradley Fighting Vehicles in 1987, for a total of 870. Also, the budget contains funding for twice as many mobile command posts (300 in 1987 compared with 144 in 1986) and slightly more vehicles to carry artillery shells. Two systems that received funding in 1986 would not be funded in 1987--the armored personnel carrier, which is being replaced by the Bradley, and a recovery vehicle designed to retrieve other vehicles damaged in battle.

Modifications. The budget for weapons modification would decline in real terms for the second consecutive year; for the five years preceding 1986, it had grown on average by about 9 percent annually. Modifications of major weapons result in improvements ranging from small programs aimed at the reliability or maintainability of parts of a weapon to large-scale programs that add new capabilities to existing weapons or extend their useful lives. The request for 1987 contains a real decrease of about 7 percent--the result of a decrease in planned modification to Navy antisubmarine warfare aircraft and Army Apache attack helicopters. This decrease is slightly offset by planned increases in the Air Force for modifications for the F-15, KC-135, B-1B and C-5 aircraft.

Ammunition. Ammunition procurement, like spare parts procurement, is sometimes considered to be a readiness activity. The 1987 request would increase ammunition procurement 6 percent over the 1986 level; it fell 6 percent in real terms between 1985 and 1986. For the five years before 1986, this activity had grown about 16 percent each year.

Ballistic Missiles. Procurement of ballistic missiles in 1987 would total about \$2.9 billion--the least amount shown in Table III-7--for a real increase of about 27 percent. Two programs account for this growth, namely, the Trident II missile, of which the first 21 missiles is requested, and the MX, with a request for 21 missiles, the same number as funded in 1985, but 9 more than were funded in 1986. Both the Trident II and the MX would cost more than the Administration estimated a year ago. The 26 percent



increase in unit costs for the MX stems partly from the lower number bought in 1986 and previously planned for 1987. Similarly, although this is the first procurement request for the Trident II, the Administration had planned to request 27 missiles in 1987 instead of 21.

In sum, the procurement budget for 1987 shows real growth in some activities and declines in others. The program contains many changes from the plan of a year ago; procurement is begun for some systems and ended for others. Overall, unit costs are about 1 percent less than the Administration projected last year, although a few systems--like the rolling airframe missile, AMRAAM, the Chaparral missile, and the Sidarm missile--show unusually high growth in unit costs.

Research, Development, Test, and Evaluation

RDT&E funding is usually the first commitment to a weapons acquisition program and it continues through the early stages of production. The Administration is seeking funds to continue the increases in RDT&E funding that have averaged 12 percent annually in real terms since 1980. RDT&E was one of only two major accounts to avert real decline in 1986--growing about 7 percent--and it would grow another 22 percent in 1987.

All aspects of the RDT&E account have significant growth in the 1987 request as shown in Table III-8. The technology base, in which pure research is conducted on subjects not necessarily restricted to weapons, would receive about a 7 percent increase. Advanced technology development would grow almost 60 percent, largely because of a proposed \$2 billion increase in the Strategic Defense Initiative (SDI). Whereas programs like SDI take emerging technologies into the early stages of weapons acquisition, the request for RDT&E calls for a 21 percent real increase in strategic programs that have already passed these early developmental stages. The increase in strategic programs reflects a \$1.4 billion commitment to research on a small ICBM--the so-called Midgetman--and \$0.4 billion for research into how to base another 50 MX missiles.

The 20 percent real increase in tactical programs for 1987 results from a number of programs, the larger of which include a new attack submarine (the SSN-21) which would receive \$0.3 billion; the C-17 cargo aircraft (\$0.6 billion); and a tilt rotor aircraft (\$0.4 billion). Intelligence and communications and defense-wide programs (that is, programs with many and diverse applications) both would increase by more than 10 percent in real terms under the Administration's budget.


Other Accounts

Military construction and family housing funds support both weapons and personnel programs. The Administration's request for military construction would fund many projects within the United States and overseas, including facilities for a new Army division at Fort Drum, New York; a Trident submarine base at Kings Bay, Georgia; and facilities related to deployment of other weapons, such as the B-1 bomber and the ground-launched cruise missile. The family housing program provides living accommodations for service members and their families, particularly in areas where private housing is scarce. The increase in funding for family housing would allow construction of 5,920 new housing units, operate and maintain about 400,000 other units, and lease yet another 28,000 housing units.

TABLE III-8. REAL GROWTH IN RESEARCH, DEVELOPMENT, TEST, AND EVALUATION (By fiscal year, in billions of dollars and percents)

Activity	1987 Request (Dollars)	Real Growth			
		1980-85 Average (Percent)	1985-86 (Percent)	1986-1987 Percent	Dollars
Technology Base	3.6	1	3	7	0.2
Advanced Technology Development	6.6	28	44	60	2.5
Strategic Programs	9.4	23	-8	21	1.6
Tactical Programs	12.7	5	12	20	2.1
Intelligence and Communications	5.1	22	11	12	0.5
Defense-wide Mission Support	<u>4.6</u>	<u>8</u>	<u>1</u>	<u>14</u>	<u>0.6</u>
Total	41.9	12	7	22	7.5

SOURCE: Compiled by Congressional Budget Office, based on data supplied by Department of Defense.



The Department of Energy (DOE) conducts research and production programs for nuclear weapons and materials. DOE also administers programs for storing nuclear waste and for designing reactors for nuclear-powered naval vessels. The President requested a real increase of about \$800 million, or 9 percent, over the 1986 budget for these programs. The largest real percentage increase was for weapons, materials, production, and waste management, a 12 percent real increase.

CHAPTER IV

THE ADMINISTRATION'S NONDEFENSE BUDGET

The President's proposals would result in nondefense outlays totaling \$713 billion in 1987, about the same as the 1986 level and \$29 billion below the CBO baseline. Social Security and net interest account for half of these expenditures, but virtually none of the 1987 savings. Outlays for other nondefense activities would fall below the baseline by 7 percent in 1987 and 17 percent in 1991.

Over the period 1987 through 1991, the Administration's request would reduce nondefense spending by \$309 billion below baseline levels. All but four nondefense functions are targeted for reductions. In only three of the four functions--International Affairs (150), General Science, Space, and Technology (250), and General Government (800)--would spending rise significantly above CBO baseline levels over the projection period. These increases largely result from higher proposed spending levels for the State Department to improve security for U.S. diplomatic missions abroad, for the National Aeronautics and Space Administration in 1990 and 1991 for a space station, and for the Internal Revenue Service. Outlays for the Administration of Justice (750) would remain near baseline levels throughout the period. Spending for these four functions would be about \$11.5 billion above the baseline from 1987 through 1991 (see Table IV-1).

Reductions in human resources programs would exceed \$160 billion over five years, accounting for more than half of the proposed nondefense reductions. For Social Security (650), which would experience the smallest reduction, benefit payments would be maintained at current law levels, and only administrative costs would be reduced. Medicare, however, would be targeted for the largest dollar reductions in any nondefense program, accounting for one-sixth of all proposed reductions in nondefense spending. Proposed increases in Medicare premiums and deductibles would be combined with reductions in payments to hospitals for capital and medical education and to physicians and other providers to reduce Medicare costs by almost \$53 billion over five years.

TABLE IV-1. CBO ESTIMATE OF THE ADMINISTRATION'S PROPOSALS IN
NONDEFENSE SPENDING (By fiscal year, in billions of dollars)

Budget Function	Increase or Decrease (-) in Outlays Relative to CBO Baseline		
	1987	1991	Total 1987-1991
Above Baseline Over Five Years			
International Affairs (150)	1.2	0.9	7.1
General Science, Space, and Technology (250)	a/	1.1	2.8
Administration of Justice (750)	0.1	-0.1	0.1
General Government (800)	0.5	-0.2	1.5
Subtotal	1.8	1.7	11.5
Below Baseline Over Five Years			
Human Resources			
Education, Training, Employment, and Social Services (500)	-3.6	-10.6	-36.3
Health (550)	-3.5	-7.1	-25.4
Medicare (570)	-4.7	-16.7	-52.8
Income Security (600)	-4.6	-10.8	-40.1
Social Security (650)	0.1	-0.4	-0.9
Veterans' Benefits and Services (700)	-0.6	-2.3	-7.0
Subtotal	-16.9	-47.9	-162.5
Natural and Physical Resources and Other Government Services			
Energy (270)	-0.8	-2.6	-8.4
Natural Resources and Environment (300)	-1.0	-3.5	-10.2
Agriculture (350)	-1.3	-2.9	-10.3
Commerce and Housing Credit (370)	-1.7	-4.4	-17.7
Transportation (400)	-1.8	-5.9	-19.5
Community and Regional Development (450)	-1.4	-3.3	-13.6
General Purpose Fiscal Assistance (850)	-4.4	-4.8	-23.6
Subtotal	-12.4	-27.4	-103.3
Other			
Net Interest (900)	-0.2	-10.7	-24.4
Allowances (920)	-0.4	-4.8	-11.3
Undistributed Offsetting Receipts (950)	-0.9	-1.5	-19.4
Subtotal	-1.5	-17.0	-55.1
Total	-29.0	-90.6	-309.4

a. Less than \$50 million.

Other federal health spending would also be reduced sharply. Federal Medicaid spending would be capped below baseline levels in 1987 and allowed to grow only with increases in medical prices. Payments for the Public Health Service would be reduced, as would payments for Federal Employees Health Benefits. Finally, a means test would be applied to veterans using the Veterans Administration hospital system. Altogether these proposed reductions in Medicare and in other federal health care expenditures would save \$82 billion over the five years, over one-fourth of all proposed nondefense changes.

Income Security (600) and Education, Training, Employment, and Social Services (500) are also targeted for large reductions--\$40 billion and \$36 billion, respectively, over five years. The President's proposals for income security would eliminate 1987 cost-of-living adjustments in civilian and military retirement systems, further reduce civilian retirement benefits, sharply cut rental assistance and public housing programs, and eliminate nutritional assistance to children from families with incomes above 185 percent of the poverty level. The largest reductions in education, training, employment, and social service programs are proposed in student aid and guaranteed student loans. Deep reductions are also proposed in funding for summer youth employment, job corps, and assistance for dislocated workers. In social service programs, the community services block grant would be eliminated, and many programs would be funded at or near their 1986 levels.

In programs affecting natural and physical resources and other government services, the total dollar reduction would be about \$103 billion over five years, only two-thirds of that in the human resources programs. The percentage reduction, however, would be much larger--24 percent, compared with 6 percent for human resources programs. The Commerce and Housing Credit (370) and General Purpose Fiscal Assistance (850) functions are targeted for reductions of 83 percent and 71 percent below baseline over five years (see Table IV-2). These reductions arise primarily from the proposed elimination of the Small Business Administration, the Farmers Home Administration rural housing programs, and General Revenue Sharing. The elimination of these three programs alone is estimated to save almost \$39 billion (less about \$2 billion in offsetting interest losses in function 900).

Proposed reductions in Energy (270) and in Community and Regional Development (450) exceed 30 percent over five years. The President's largest cut in energy programs would occur in the Rural Electrification Administration, with both direct and guaranteed loans eliminated by 1990. Federal energy research and development efforts would be curtailed, and spending for conservation programs and the Strategic Petroleum Reserve virtually eliminated. Many community and regional development programs are slated for elimination. The largest savings would come from eliminating

TABLE IV-2. CBO ESTIMATE OF THE ADMINISTRATION'S PROPOSALS IN NONDEFENSE SPENDING (By fiscal year, in percent differences from the CBO baseline)

Budget Function	Percent Increase or Decrease (-) in Outlays Relative to Baseline		
	1987	1991	Total 1987-1991
Above Baseline Over Five Years			
International Affairs (150)	8	5	9
General Science, Space, and Technology (250)	a/	11	6
Administration of Justice (750)	1	-1	a/
General Government (800)	9	-4	5
Below Baseline Over Five Years			
Human Resources			
Education, Training, Employment, and Social Services (500)	-12	-29	-22
Health (550)	-9	-14	-12
Medicare (570)	-6	-14	-11
Income Security (600)	-4	-7	-6
Social Security (650)	a/	a/	a/
Veterans' Benefits and Services (700)	-2	-8	-5
Natural and Physical Resources and Other Government Services			
Energy (270)	-16	-46	-32
Natural Resources and Environment (300)	-8	-25	-15
Agriculture (350)	-6	-23	-11
Commerce and Housing Credit (370)	-35	-176	-83
Transportation (400)	-7	-20	-14
Community and Regional Development (450)	-18	-40	-35
General Purpose Fiscal Assistance (850)	-72	-69	-71
Other			
Net Interest (900)	a/	-7	-3
Allowances (920)	-34	-45	-40
Undistributed Offsetting Receipts (950) b/	-3	-3	-9

a. Less than 0.5 percent.

b. Offsetting receipts rise, decreasing the deficit.

new disaster loans under the Small Business Administration beginning in 1987, eliminating Urban Development Action Grants, and reducing funding for community development block grants. Savings in these two functions would total \$22 billion over the 1987-1991 period.

The budget includes smaller reductions of between 11 percent and 15 percent for three other functions. The President is proposing reductions totaling almost \$20 billion in Transportation (400) by eliminating funding for Amtrak, sharply reducing funding for mass transit, and cutting highway and airport grants as well as maritime subsidies. Another \$10 billion in savings would be obtained in Natural Resources and Environment (300) by phasing out the construction grants program of the Environmental Protection Agency and by reducing spending for conservation, forestry, and other natural resources activities. In Agriculture (350), the largest savings would result from eliminating disaster loans and phasing out other direct loans in the Agricultural Credit Insurance Fund. Crop insurance subsidies would be eliminated, export credit fees increased, and funding for the Extension Service would be sharply cut, for total savings in agriculture programs of \$10 billion over the five-year period.

The President proposes to limit pay rate increases to 3.0 percent each year for civilian employees. However, for 1987, the budget includes only 50 percent of the funds for such an increase for nondefense agencies, thereby requiring those agencies to reduce other activities to pay for part of the increase. The CBO baseline assumes increases averaging over 5 percent per year based on projected growth in private-sector pay. Primarily as a result of these differences, the baseline spending in Allowances (920) would be reduced almost 40 percent by the President's request.

The President's proposals would increase Undistributed Offsetting Receipts (950) by \$19 billion through 1991. The major saving would result from the proposed sale of the government's interest in the Naval Petroleum Reserves and five power marketing administrations. Receipts from these sales are estimated to total nearly \$15 billion, but receipts generated by these assets would be reduced by almost \$4 billion through 1991, and by additional amounts in subsequent years.

The President's proposals for nondefense spending are discussed in more detail, by budget function, on the following pages.



FUNCTION 150: INTERNATIONAL AFFAIRS

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 150: INTERNATIONAL AFFAIRS (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	15.3	15.8	15.8	16.0	16.6	
Proposed Changes						
Administration of Foreign Affairs	0.4	0.8	1.0	0.9	0.8	4.0
Export Financing	0.1	0.3	0.3	0.3	0.2	1.1
Foreign Military Sales Financing	0.3	0.2	0.3	0.2	0.1	1.1
Other Security Assistance	0.3	0.3	0.2	0.2	0.1	1.0
Broadcast Services	0.1	0.2	0.2	0.2	0.2	0.8
Other Development Assistance	0.1	a/	-0.2	-0.3	-0.4	-0.8
Other	-0.1	a/	a/	-0.1	-0.1	-0.3
Total	1.2	1.7	1.8	1.5	0.9	7.1
President's 1987 Budget as Estimated by CBO	16.5	17.5	17.7	17.4	17.5	
President's 1987 Budget	18.6	18.3	18.0	17.5	17.7	
CBO Reestimates	-2.1	-0.7	-0.4	a/	-0.2	-3.5

a. Less than \$50 million.

Proposed Policy Changes

For international affairs, the President is proposing spending above baseline levels in all years, with increases totaling \$7.1 billion, or 9 percent, over the 1987-1991 period. The largest increase is for administration of foreign affairs, reflecting a five-year program in the State Department to improve

security of U.S. diplomatic missions abroad. Proposed funding for the new security program totals \$4.4 billion for 1986 through 1990, including a 1986 supplemental of \$0.7 billion. The security program includes requests for appropriations of \$2.7 billion for embassy construction, \$1.6 billion for salaries and expenses, and \$0.1 billion for counterterrorism research and development. As a result, outlays for administration of foreign affairs are \$4.0 billion above baseline over the 1987-1991 period.

Export Financing. The President's budget includes two changes in programs of government-assisted export financing. The Administration is requesting a one-time appropriation of \$300 million for a "war chest" in the Department of the Treasury to provide grants of 25 percent or more of the value of the export to foreign customers of U.S. goods. The grants are to support U.S. negotiations with other exporting countries to end the abuse of highly concessional credits for commercial advantage. Outlays for this program are estimated to add \$0.2 billion in 1987-1991 to CBO's baseline.

In addition to the war chest, the President's budget includes an interest subsidy program for the Export-Import Bank (Eximbank). The President is requesting authority to obligate \$1.8 billion in subsidized loans in 1987 and to finance the loans through a guarantee of the timely payment of loan principal and interest against all risk. The subsidized loans are the same to the borrower and the exporter as the existing direct loans; only the means of financing is changed. The proposed guaranteed financing is equivalent to an agency debt transaction. In this analysis, CBO has recorded the subsidized loans as direct loans rather than as loan guarantees, the approach used in the President's budget. Higher loan levels would increase outlays over baseline by \$0.1 billion in fiscal year 1987 and by \$0.9 billion over the five-year period. (For further discussion of the subsidized loan program, see Appendix A.)

Foreign Military Sales and Other Security Assistance. Proposed funding for foreign military sales is above the CBO baseline by \$0.7 billion in 1987 and by \$1.9 billion over the 1987-1991 period. As a result, outlays over the five-year period would be \$1.1 billion above baseline levels. The request includes 1987 funding for Israel and Egypt at 1986 presequestration levels. The Administration is also seeking increases in other security assistance programs. It proposes to restore both the sequestered amounts and the \$1.0 billion cut in security assistance appropriations previously enacted for 1986.

Broadcast Services. The President's budget also includes an increase in funding for foreign information and exchange activities, with outlays \$0.8 billion above baseline levels over the 1987-1991 period. This increase is mainly attributable to the modernization and expansion of transmission sites for the Voice of America and Radio Free Europe/Radio Liberty.



Other Development Assistance. Increases in funding for Public Law 480 food assistance are requested to maintain tonnage shipments at 1986 levels. These shipments were partially funded through carry-over balances in 1986. The increases in Public Law 480 are offset by cuts in other development programs, the only major program area in this function targeted for cuts below the baseline. The President's budget provides increases at half the rate of inflation for bilateral aid and includes no increases or provisions for arrearages for the multilateral development banks.

Other Proposals. The President is requesting an additional \$100 million capitalization for the Special Defense Acquisition Fund (SDAF). This shifts \$0.1 billion in offsetting receipts from the defense function to offsetting collections in SDAF. The President has not requested recapitalization of the Guarantee Reserve Fund, which presently is thinly capitalized. The fund's reserves were only \$271 million in 1986 against \$20 billion in outstanding guarantees. In December 1985, one-quarter of these reserves was consumed when a country missed a scheduled payment.

CBO Reestimates

CBO has lowered the President's outlay estimates for foreign military sales by \$2.1 billion in 1987 and \$6.0 billion over the 1987-1991 period, reflecting large balances of undisbursed and uncommitted funds. Since some countries, particularly those that have granted the U.S. Department of Defense rights to use certain facilities, historically have received new financing in excess of new sales, CBO assumes the increase in new financing will add only marginally to outlays and, thus, projects that uncommitted or unused balances of foreign military sales credits will rise.

CBO has recorded the interest subsidy loans in the Eximbank as direct loans rather than loan guarantees, as treated in the President's budget. As a result, CBO has increased the President's outlay estimate for the Eximbank by \$0.3 billion in 1987 and \$3.2 billion over the 1987-1991 period.

Credit Programs

The President is requesting an increase of \$0.5 billion for foreign military sales credits in fiscal year 1987, and an increase of \$1.2 billion for the five-year period. The Administration's budget also proposes slightly higher levels of direct loans for Public Law 480 and the economic support fund in 1987. The request for these direct loan programs grows at half the rate of inflation in the years 1988 through 1991.

The President is requesting to eliminate the Agency for International Development's Housing Investment Guarantee program in fiscal year 1987 and to privatize the Overseas Private Investment Corporation by 1989.

In fiscal year 1986, the Eximbank has authority for \$1.1 billion in direct loans and \$11.5 billion in guarantees and insurance. The 1987 request is for a limit of \$12.0 billion in guaranteed loans, of which \$1.8 billion is for interest subsidized loans. CBO views the interest subsidized loans to be the equivalent of direct loans, which results in an increase of \$0.7 billion in fiscal year 1987 over the CBO baseline and \$3.0 billion for the 1987-1991 period. The proposal for Eximbank guarantees and insurance is \$1.8 billion less than projected in the CBO baseline. The Administration's request has no increase for inflation, which reduces the total limits for subsidized loans and guarantees and insurance for the five-year period by \$13.9 billion.

The major changes proposed for the credit programs in this budget function are summarized in the table on the following page.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 150:
INTERNATIONAL AFFAIRS (By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Direct Loan Obligations						
CBO Baseline	8.8	9.0	9.3	9.7	10.0	
Proposed Changes						
Foreign Military Sales	0.5	0.4	0.3	0.1	-0.1	1.2
Eximbank	0.7	0.6	0.6	0.6	0.5	3.0
Other	<u>0.1</u>	<u>0.1</u>	<u>a/</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.1</u>
Total	1.2	1.1	0.9	0.6	0.3	4.1
President's 1987 Budget as Estimated by CBO	10.0	10.1	10.2	10.3	10.3	
Guaranteed Loan Commitments						
CBO Baseline	12.2	12.8	13.3	13.8	14.4	
Proposed Changes						
OPIC	<u>a/</u>	<u>a/</u>	-0.2	-0.2	-0.2	-0.5
AID (Housing Invest- ment Guarantees)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8
Eximbank	<u>-1.8</u>	<u>-2.2</u>	<u>-2.8</u>	<u>-3.3</u>	<u>-3.8</u>	<u>-13.9</u>
Total	-1.9	-2.4	-3.1	-3.6	-4.2	-15.2
President's 1987 Budget as Estimated by CBO	10.3	10.3	10.2	10.2	10.2	

a. Less than \$50 million.